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FM AMEMBASSY SOFIA
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INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE

UNCLAS SECTION 01 OF 02 SOFIA 001184

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E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [KTEX](#) [BU](#)

SUBJECT: BULGARIAN TEXTILES AND APPAREL INDUSTRY UPDATE

REF: SECSTATE 114799

¶1. The following is an overview of the Bulgarian textiles and apparel industry, keyed to items listed in reftel. This information was gathered from the Bulgarian Association of Apparel and Textile Producers and Exporters, the National Statistics Institute, the Ministry of Economy and Energy (MoEE), the Bulgarian National Bank, and the Agency for Economic Analyses and Forecasts.

¶2. REQUIRED STATISTICS:

Total industrial production in USD: Total industrial production grew 8.3 percent year-on-year in 2006. Industrial gross value added (GVA) in 2006 was estimated at 7.4 Billion leva or USD 4.7 billion. Industrial gross value added growth in Q2/2007 was 8.8 percent over Q2/2006. (In 2006, one lev equaled 1.56 USD).

Total textiles and apparel production:
Combined textiles and apparel production continued to grow in 2006. GVA of the industry in 2006 was 1.1 billion leva (USD 705 Million). Textiles and apparel gross value added growth in Q2/2007 was 6.8 percent year-on-year (over Q2/2006.)

Textiles/Apparel share of host country's imports and exports: Total imports of textile and apparel in Bulgaria grew 7.5 percent year-on-year, reaching 1.5 billion euro, or USD 1.8 Billion, in 2006. Textiles and Apparel imports contributed 8.7 percent to the total volume of imports in 2006. The industry continued to be export-oriented in 2006. The total textiles and apparel exports grew 7 percent year-on-year in 2006, reaching 1.8 billion euro, or USD 2.3 billion. Industry exports made up 16.5 percent of total exports in ¶2006. Despite last year's growth, textile and apparel exports continued to decrease as a share of the total economy over the last three years (17.9 percent in 2005 and 21.1 percent in 2004). Germany, Greece, Italy, and France were the top export markets in ¶2006. Outside the EU, Turkey remains a major market for Bulgarian textile and apparel production. The Bulgarian textiles and apparel industry had a positive trade balance of nearly USD 500 million in ¶2006.

Exports in textiles and apparel to the United States: Exports of textile and apparel to the United States decreased to USD 50 million in 2006 (from USD 63 million in 2005). Exports of ready-made apparel -- Bulgaria's major apparel export to the United States -- decreased 28 percent to USD 26.5 million in 2006.

Total manufacturing employment: Total manufacturing employment (processing industry) in 2006 was 670,972 people.

Total apparel and textiles employment: Total apparel and textiles employment in 2006 was 167,880 people, which was 0.7 percent less than in 2005. However, the National Statistics Institute is likely to correct this data, reducing the number of employed. Due to the lack of skilled workers, employment in the industry will continue to decline, according to the Bulgarian Association of Apparel and Textiles Producers and Exporters (BAATPE). Currently, there is an outflow of textiles and apparel workers from Bulgaria, mainly to Romania, where higher wages are being paid. Some local companies

have also started to move to lower labor cost regions.

Additional Data

¶3. The average annual wage in the industry in 2006 was USD 1,970, up 11 percent year-on-year, according to BAATPE. This was the highest growth in the last 7 years. Actual wages were probably somewhat higher due to the practice of paying additional wages in cash to avoid taxes. The industry has seen relatively light investment activity, with only USD 20 million Foreign Direct Investment (FDI) recorded on its balance sheet in 2006, according to central bank data. Due to lack of new investment and technology, local industry is unable to add much value to its production. Nevertheless, new investments are increasing overall production capacity and labor productivity, which is bringing up average salaries in the industry. MoEE had no data on any outflow of foreign investment in the industry over the past year.

¶4. Relatively stable domestic demand is pushing up sales prices. The sales price of apparel rose 5.5 percent year-on-year in June 2007 (as part of the Consumer Price Index), while the sales price of textiles grew only 1.7 percent. Growth in consumer prices of apparel was 4.1 percent year-on-year (December 2006 over December 2005). Growth in consumer prices of textiles was .4 percent year-on-year (December 2006 over December 2005.) Sales volumes also continued to rise as a result of expanding exports to the EU. The sales index for textiles grew 252.3 (2000=100), while the sales of apparel index stood at 215.9 in 2006. Compared with the index in December 2006, which stood at 321.6, the sales-of-textiles index in June 2007 has decreased, while the sales-of-apparel index has increased (193.8 in December 2006). The construction of large selling centers (malls) in bigger cities is expected to push domestic demand for textiles and apparel even higher

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¶5. There are approximately 2,000, predominantly small and medium-sized companies in the industry. Facing global competition, these companies retain their competitive edge by delivering short-term, quick-response orders to their outside customers, offering high-quality production at competitive prices. The proximity to key suppliers of quality textile material (Italy and Turkey) is another advantage for the Bulgarian textiles and apparel industry. In addition, customs delays and duties on intra-EU trade were eliminated after Bulgaria's accession to the EU on January 1, 2007.

¶6. In June 2005, the EU and China signed a Memorandum of Understanding which limits specific categories -- considered most sensitive for the EU industry -- of Chinese textiles and apparel exports to the EU by the end of 2007. In 2006, in five of these ten categories there was a decline of Bulgarian exports to the EU market, including sweaters, male trousers, blouses, dresses, and kitchen tablecloths. The reported reduction ranged from between 10 and 28 percent, according to MoEE data.

¶7. Evidenced by latest trade figures, U.S. restrictions on Chinese exports, effective through 2008, have produced no positive effect on Bulgaria's total exports to the United States. Exports to the U.S. market continued to decrease in 2006.

¶8. Bulgaria adheres to international commitments and effective use of liberal trade mechanisms. The GOB supports EU initiatives aimed at significant reduction or elimination of tariffs and/or non-tariff barriers in the context of bilateral negotiations or through WTO consultation mechanisms. The GOB is also involved in addressing IPR problems and issues related to rules of origin and eco-labeling.

¶9. The textiles and apparel industry still plays a significant role in the Bulgarian economy. For the past 6 years it has been one of the most competitive industries in Bulgarian industry and one of the major employers in the country. Bulgaria's EU membership increases the prospects of local textiles and apparel producers to maintain their competitive position in the EU internal market. At the same time, smaller enterprises are increasingly exposed to foreign

competition produced by trade liberalization and low-cost imports from China. Local industry will retain its competitive edge only if it can attract new investment and introduce new technology.

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